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## Philippines

### Coffee

### Annual

### 2005

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**Report Highlights:**

After a slight decline last year, coffee production is forecast to improve modestly in the next two years as increased output from national rehabilitation efforts and new coffee production areas begin to be realized. Without any significant increases in domestic coffee production, imports of coffee beans are likely to remain high as coffee consumption continues to rise. Vietnam supplied over 94 percent of all coffee bean imports in 2004. Exports of coffee, particularly instant soluble coffee, will continue to climb.

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## Executive Summary

After a slight decline last year, coffee production is forecast to improve modestly in the next two years as increased output from national rehabilitation efforts and new coffee production areas begin to be realized. Without any significant increase in domestic coffee production, imports of coffee beans are likely to remain high as coffee consumption continues to rise. Vietnam supplied over 94 percent of all coffee bean imports in 2004. Exports of coffee, particularly instant soluble coffee, will continue to climb. About 79 percent of all soluble coffee exports went to Japan.

## Production

Coffee production declined marginally in CY 2003/04, due in part to crop damage and a slight decline in coffee production area. Production is expected to improve slightly in CY 2004/05 as new coffee trees come into production. Higher coffee buying prices and strong demand will also likely encourage more plantings this year.

Currently, the Philippines has three bodies that release statistics on the domestic coffee industry, the Bureau of Agricultural Statistics (BAS), the International Coffee Organization Certifying Agency (ICOCA) and the National Coffee Development Board (NCDB). BAS relies on field surveys to determine production based on the average yield of productive trees standing. On the other hand, ICOCA and NCDB production estimates are based on the actual volume of coffee bean production purchased by processors, about 90 percent of which is the Robusta variety. As such, data coming from the various bodies usually differs because of untraded production in remote areas that is not captured by ICOCA and NCDB.

Based on data released by BAS (an attached agency of the Philippine Department of Agriculture) and ICOCA (an attached agency of the Department of Trade and Industry), coffee production contracted slightly in CY 2003/04. According to BAS, coffee production in CY 2003/04 decreased by about 5 percent from 106,000 MT to 101,000 MT (dried berry form), while ICOCA revised its production numbers by nearly 40 percent from 721,000 60-kg bags in CY 2002/03 to 433,000 bags last year. BAS forecasts coffee production to remain relatively flat in the near future even with new plantings due to the relatively long gestation period of new coffee trees.

ICOCA has cited several reasons for the adjustments, such as crop damage due to drought and typhoons, as well as deliberate moves by the agency to correct earlier overestimations to realign ICOCA numbers with figures reported by industry. ICOCA forecasts coffee production to recover in CY 2004/05 from the previous year because of increased plantings and a rise in productive coffee areas.

The NCDB, composed of government and private industry representatives, reports that domestic coffee production rose to 28,000 metric tons in CY 2003/04 as a result of rehabilitation and fertilization programs. The NCDB estimates local coffee production to increase to about 32,000 MT in CY 2004/05 as more farmers plant coffee in response to higher coffee prices both in the domestic and global markets. The NCDB mainly reports on Robusta production, the most widely traded variety and estimated to be roughly 90 percent of all coffee produced in the country.

The Philippines lies in a narrow area in the world called the coffee belt making it one of the few countries that can grow all four varieties of coffee: Arabica, Excelsa, Liberica and Robusta. Among the coffee producing provinces in the country, Compostela Valley in Mindanao, topped production in 2004. The other top producing areas are Davao City, Cavite and Davao del Sur.

According to the Philippine Coffee Industry Strategic Action Plan prepared by the NCDB, the Philippines may be able to meet its own coffee demand by 2013, provided an additional 8,400 hectares of coffee trees are planted annually between 2006-2010. This may prove to be quite a difficult task, however, as industry sources indicate that the main constraint to increasing coffee production is the availability of planting materials and the cost of inputs such as fertilizer. The NCDB is seeking financial support from the government to establish mother clonal garden nurseries to meet the demand for coffee seedlings.

The NCDB reports that coffee buying prices are likely to remain high due to current production problems being experienced by some major coffee producers. Brazil is reportedly cutting down production due to a seasonal crop rotation while Vietnam is experiencing an extended dry spell. On the other hand, Indonesia, another major coffee producer, is also reportedly assessing the impact of a recent earthquake that hit its coffee plantations.

Average domestic buying prices of Robusta beans held steady in 2004 at around P40.17. However, there is a noticeable drop in buying prices during the first 3 months of this year compared to the same period last year.

<b>DOMESTIC BUYING PRICES (farmgate) Robusta, 2003-2005 (Pesos/kg)</b>			
	<b>2003</b>	<b>2004</b>	<b>2005</b>
Jan	43.38	40.50	36.57
Feb	43.38	42.50	36.94
Mar	40.50	42.50	40.63
Apr	39.50	41.00	
May	39.75	40.00	
Jun	35.53	41.84	
Jul	34.25	43.50	
Aug	40.50	38.30	
Sep	43.00	37.80	
Oct	42.58	37.50	
Nov	39.60	38.20	
Dec	39.00	38.40	
<b>Average</b>	<b>40.08</b>	<b>40.17</b>	

Source: International Coffee Organization Certifying Agency

Data from BAS shows that weighted average farmgate prices of coffee improved by 6 percent from P36.28/kg in 2003 to P38.56/kg in 2004. Despite higher prices, the total value of Philippine coffee production declined in 2004 due to lower coffee output.

<b>2004/05 FARMGATE PRICES OF COFFEE (Pesos/kg)</b>			
<b>2004</b>	<b>Arabica</b>	<b>Excelsa</b>	<b>Robusta</b>
Jan	58.30	43.17	37.25
Feb	60.55	44.50	37.57
Mar	60.56	42.85	36.93
Apr	54.11	32.52	32.59
May	35.22	37.48	32.03
Jun	55.55	39.03	34.22

Jul	44.36	47.40	36.48
Aug	55.35	34.23	34.85
Sep	44.61	38.37	31.92
Oct	50.55	25.41	29.23
Nov	55.85	27.16	29.67
Dec	65.48	27.73	31.19
<b>Average</b>	<b>53.88</b>	<b>36.65</b>	<b>33.66</b>
Jan	67.34	27.42	36.57
Feb	59.93	28.07	36.94
Mar	59.98	36.41	40.63

Source: Bureau of Agricultural Statistics

## Consumption

According to the National Economic Development Authority (NEDA), Philippine gross domestic product (GDP) rose by 6.1 percent in 2004, the fastest since the 6.2 percent growth rate recorded in 1989 and outpacing the 2003 expansion of 4.7 percent. Gross national product (GNP) rose by 6.1 percent in 2004 despite the slower growth of income from abroad as a result of the decline in the number and deployment of overseas Filipino workers. Heightened personal consumption expenditures (PCE) continued to drive overall economic growth in 2004 as it climbed at a faster pace of 5.8 percent from the 5.3 percent growth in 2003.

However, according to analysts, 2004 GDP growth will be hard to surpass because of higher interest and inflation rates as well as a possible slowdown of the global economy. Economic growth in the Philippines is expected to slow to 5.0 percent this year, lower than the government target of 5.3-6.3 percent. Higher inflation rates are projected in 2005 due to rising oil prices which will likely dampen consumer spending.

Despite the possible slowdown in the Philippine economy, consumption of coffee is not likely to be affected. Coffee is generally considered to be a household staple even among the lower economic classes. Domestic coffee consumption is estimated to be about 60,000 MT, growing at around 2-3 percent per year, roughly equal to annual population growth. At present, soluble or instant coffee accounts for about 90-95 percent of all the coffee consumed in the Philippines.

## Trade

Imports of coffee beans in CY 2003/04 were adjusted upwards consistent with trade data from the Philippine National Statistics Office (NSO). Vietnam supplied over 94 percent of total Philippine coffee bean imports. From virtually no imports in 1996, Philippine imports grew to nearly 19,000 MT of coffee beans in CY 2003/04 valued at \$15 million (National Statistics Office). Without significant increases in coffee production and with continued strong growth in domestic coffee consumption, coffee bean imports will likely remain high, nearly 40 percent of total domestic requirement. Coffee bean imports in CY 2004/05 are forecast to remain roughly at the same levels.

The ICOCA is optimistic that Philippine coffee exports will continue to improve due mainly to reported production cutbacks by traditional exporters like Brazil. Based on NSO data, soluble coffee exports, comprising almost all of Philippine coffee exports, were about 3 MMT (GBE) in CY 2003/04 and are expected to increase further in CY 2004/05. According to ICOCA, about

79 percent of all soluble coffee exports in 2004 were to Japan while the Sultanate of Oman was the main destination for green bean exports. Total coffee exports recorded in July-December 2004 were higher than in the same period the previous year.

The 2005 MFN and CEPT tariff rates for coffee are as follows:

Tariff Code	Description	MFN	CEPT	Remarks <sup>1</sup>
<b>09.01</b>	<b>Coffee, whether or not roasted or</b>			
	<b>decaffeinated coffee husks and skins; coffee</b>			
	<b>Substitutes containing coffee in any proportion</b>			
	- Coffee, not roasted			
0901.11	-- Not decaffeinated			
0901.11.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.11.90	--- Other			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.12	-- Decaffeinated			
0901.12.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.12.90	--- Other:			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
	- Coffee, roasted			
0901.21	-- Not decaffeinated			
0901.21.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.21.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22	-- Decaffeinated			
0901.22.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.90.00	- Other			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH

<sup>1</sup> BN- Brunei Darussalam/KH- Cambodia/MM- Burma/TH- Thailand/ID- Indonesia/LA- Laos/VN- Vietnam

## Policy

In 2004, the NCDB launched its 10-year coffee development plan entitled “Self Sufficiency: Philippine Coffee Industry Strategic Action Plan.” To implement this development plan, the NCDB is seeking P2.6 billion (\$42.3 million) in government funding. The DA has identified coffee as a priority crop and is seeking to develop two million hectares of new agricultural lands with various priority crops. To improve farm incomes, the NCDB’s 10-year plan encourages the inter-cropping of coffee with high value commercial fruits and vegetables or cash crops.

Under the NCDB program, about P150 million will be needed yearly to sustain the effort to increase coffee production. These activities include setting up mother clonal gardens to propagate high-quality coffee planting materials nationwide; establishment of coffee processing plants to add value to the commodity; establishment of a seed purchase fund; the rehabilitation of coffee farms and fertilization of coffee plantations. NCDB is projecting that in 10 years the country will increase annual coffee production to about 75,000 MT, sufficient to meet the projected demand in 2015.

Amadeo, Cavite, a top coffee producing area in Luzon has launched the “Adopt-a-Farm Project” under the 10-year coffee development program. The Adopt-a-Farm project is a new concept which aims to convert underutilized and idle lands to productive coffee farms. The project is intended to provide extra income and generate jobs in rural areas. For P10,000 (\$185) per year an individual may adopt one hectare and develop it into a productive coffee farm. The local government of Amadeo will provide technical support to the farmers. At present, about 50 hectares out of Amadeo’s 2,300 hectares of traditional coffee farms have been adopted.

## Marketing

New products currently being marketed are organic coffee, mountain-grown Arabica coffee and ethnic coffee like the *Coffee Alamid*. Coffee Alamid or Civet Coffee reportedly has total worldwide production of about 250 kg and costs between \$100-300 per kilogram. This world's most expensive coffee is made from the beans found in the droppings of a civet, a cat-like nocturnal mammal similar to the mongoose. Indonesia and Vietnam also produce a similar type of coffee. The animals live on plantations and are reportedly expert at picking out the finest coffee berries. Their digestive system is said to break down the fruit and then expel the beans, which are gathered by plantation workers who then wash and roast the beans to produce a coffee that experts say has a unique flavor.

Food and beverage giant San Miguel Corporation (SMC) has entered the coffee business via a joint venture with Singapore-based Super Coffeemix Manufacturing Ltd. In a disclosure to the Philippine Stock Exchange, SMC reported that it has signed an agreement with Super Coffeemix for the establishment of a joint venture company that will manufacture and distribute coffee and other related products in the Philippines and other countries in the region.

According to media releases, Super Coffeemix is an integrated manufacturer of instant beverages, cereal flakes, noodles and snack food products. It operates internationally with manufacturing facilities in Singapore, Malaysia, China, Burma and Indonesia and a network of direct sales offices and distributors strategically located to reach Asia-Pacific and world markets.

According to Euromonitor, specialist coffee shops in the Philippines are expected to continue growing in coming years. In terms of units, in 2003 the subsector has grown 150 percent since 1999. With Starbucks gaining more popularity and other specialty coffee shops following suit, more such outlets are likely to appear. In 2003, specialty coffee shops had sales of about \$12 million.

Increasingly, Filipino consumers on a night out are settling for a good coffee instead of alcohol. Coffee shops have become a status symbol for younger consumers. Working people find these specialty coffee shops to be convenient places for afternoon business meetings. With the growing popularity of coffee drinking in the country, Filipinos have started to be more discriminating in their preferences for coffee, according to Euromonitor.

<b>PSD Table</b>						
<b>Country</b>	<b>Philippines</b>					
<b>Commodity</b>	<b>Coffee, Green</b>				(1000 HA) (MILLION TREES) (1000 60 KG BAGS)	
	Revised	2002	Estimate	2003	Forecast	2004
	Old	New	Old	New	Old	New]
<b>Market Year Begin</b>		07/2003		07/2004		07/2005
Area Planted	135	135	135	135	0	135
Area Harvested	113	113	113	118	0	113
Bearing Trees	95	95	95	95	0	95
Non-Bearing Trees	15	15	15	15	0	15
TOTAL Tree Population	110	110	110	110	0	110
Beginning Stocks	227	227	209	219	181	213
Arabica Production	35	35	30	35	0	35
Robusta Production	630	630	630	640	0	650
Other Production	25	25	30	25	0	25
TOTAL Production	690	690	690	700	0	710
Bean Imports	225	315	235	330	0	350
Roast & Ground Imports	3	3	3	3	0	3
Soluble Imports	90	50	90	50	0	50
TOTAL Imports	318	368	328	383	0	403
<b>TOTAL SUPPLY</b>	<b>1235</b>	<b>1285</b>	<b>1227</b>	<b>1302</b>	<b>181</b>	<b>1326</b>
Bean Exports	4	4	4	4	0	4
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	2	42	2	45	0	48
TOTAL Exports	6	46	6	49	0	52
Rst,Ground Dom. Consum	100	100	110	110	0	120
Soluble Dom. Consum.	920	920	930	930	0	940
TOTAL Dom. Consumption	1020	1020	1040	1040	0	1060
Ending Stocks	209	219	181	213	0	214
<b>TOTAL DISTRIBUTION</b>	<b>1235</b>	<b>1285</b>	<b>1227</b>	<b>1302</b>	<b>0</b>	<b>1326</b>